

**Blue Ribbon Commission on
Public Employees Retirement
Systems
June 19, 2007**

**Budgeting for Retirement
Systems' Costs**

Items Addressed in this Presentation

- The Biennial Budget Process
- Historical Review of Employer Contribution Rate Setting in the Budget Process
- How much in the 2006-08 budget
- Budgeting for Kentucky Employees Retirement System differs from Kentucky Teachers' Retirement System
- Kentucky Employees Retirement System
- Kentucky Teachers' Retirement System

Summary of Differences in Financing and Budgeting for Employer Contributions

	KERS	KTRS
Rate as a % of Payroll?	Yes	Yes
Rate set in Statute?	No	Yes
Direct Appropriations to Supplement Employer Contribution Rate?	No	Yes
Medical Insurance Pre-funding?	Yes	No
Medical Insurance a part of Inviolable Contract?	Yes	No
Cost-of-Living Adjustment Included in Rate?	Yes, but only for prior years	Yes, with supplement
Sick Leave Credit Included in Rate?	Some	No

Budget Process for Retirement Employer Contribution Rate

- Actuarial Recommendation
- Biennial Budget Request Instructions
- Agency Budget Requests
- Governor's Executive Budget Recommendation
- General Assembly Deliberation and Enactment

Biennial Budget Request Process for Retirement Employer Contribution Rate

- Biennial Budget Request Instructions Assumptions for Employer Contribution Rates is the Starting Point
- For KERS Nonhazardous, Hazardous, and State Police – estimates provided by Ky Employees Retirement System from actuarial analysis
- LRC publishes the biennial budget request instructions identifying the employer contribution rates provided

Biennial Budget Request Process for Retirement Employer Contribution Rate

- For Teachers' Retirement System – the employer contribution rate for the budget request process is based in statute
- The Teachers' Retirement System budget request includes the requested funding for many other elements of the System that are not funded by the employer contribution rate

Executive Biennial Budget Recommendation

- Governor is required to submit a balanced budget to the General Assembly
- Governor considers the recommendations of both KERS and KTRS Boards
- Governor weighs the costs of those recommendations against all other budgetary needs
- Governor's recommendations to the General Assembly detail the assumptions made

Employer Contributions – Budgetary Treatment

--Explicitly Budgeted:

- Executive Branch Agencies
- Judicial Branch
- Legislative Branch

--Included or Partially Included but not Explicitly Budgeted:

- Participating Universities and KCTCS
- Public Health Departments
- 14 Mental Health/Mental Retardation Boards

General Assembly Biennial Budget Enactment

- General Assembly is required to enact a balanced budget
- General Assembly considers the recommendations of the Governor and both KERS and KTRS Boards
- General Assembly weighs the costs of those recommendations against all other budgetary needs
- General Assembly's enacted budget details the assumptions made

Kentucky Retirement Systems (KERS)
Recommended Employer Contribution Rates – Non-Hazardous
Fiscal years 1992-2008

Fiscal Year	KERS - Budget			KERS - Statutory	
	Request Process	Enacted	Difference	Recommended	Difference
1992	7.65%	7.65%	0.00%	7.65%	0.00%
1993	8.66%	7.65%	-1.01%	8.66%	-1.01%
1994	8.66%	7.65%	-1.01%	8.66%	-1.01%
1995	8.56%	8.56%	0.00%	8.56%	0.00%
1996	8.56%	8.56%	0.00%	8.75%	-0.19%
1997	8.89%	8.89%	0.00%	8.89%	0.00%
1998	8.89%	8.89%	0.00%	8.89%	0.00%
1999	8.03%	8.03%	0.00%	8.03%	0.00%
2000	8.03%	8.03%	0.00%	8.03%	0.00%
2001	5.89%	5.89%	0.00%	5.89%	0.00%
2002	5.89%	5.89%	0.00%	5.89%	0.00%
2003	5.89%	3.76%	-2.13%	5.89%	-2.13%
2004	5.89%	5.89%	0.00%	7.53%	-1.64%
2005	10.29%	5.89%	-4.40%	10.29%	-4.40%
2006	10.29%	5.89%	-4.40%	13.62%	-7.73%
2007	18.31%	7.75%	-10.56%	17.13%	-9.38%
2008	18.31%	8.50%	-9.81%	48.37%	-39.87%

Kentucky Retirement Systems (KERS)
Recommended Employer Contribution Rates – Hazardous
Fiscal Years 1992-2008

Fiscal Year	KERS - Budget			KERS	
	Request Process	Enacted	Difference	Revised	Difference
1992	15.05%	15.05%	0.00%	15.05%	0.00%
1993	17.55%	15.05%	-2.50%	17.55%	-2.50%
1994	17.55%	15.05%	-2.50%	17.86%	-2.81%
1995	17.97%	17.97%	0.00%	17.97%	0.00%
1996	17.97%	17.97%	0.00%	18.05%	-0.08%
1997	17.87%	17.87%	0.00%	17.87%	0.00%
1998	17.87%	17.87%	0.00%	17.87%	0.00%
1999	18.66%	18.66%	0.00%	18.66%	0.00%
2000	18.66%	18.66%	0.00%	18.91%	-0.25%
2001	18.84%	18.84%	0.00%	18.84%	0.00%
2002	18.84%	18.84%	0.00%	18.84%	0.00%
2003	18.84%	17.60%	-1.24%	18.84%	-1.24%
2004	18.84%	18.84%	0.00%	18.84%	0.00%
2005	19.47%	18.84%	-0.63%	19.47%	-0.63%
2006	19.47%	18.84%	-0.63%	21.59%	-2.75%
2007	25.04%	22.00%	-3.04%	23.32%	-1.32%
2008	25.04%	24.25%	-0.79%	47.11%	-22.86%

Kentucky Retirement Systems (KERS)
Recommended Employer Contribution Rates – State Police
Fiscal Years 1992-2008

Fiscal Year	KERS – Budget Request Process	Enacted	Difference	KERS Revised	Difference
1992	19.57%	19.57%	0.00%	19.57%	0.00%
1993	21.84%	19.57%	-2.27%	21.84%	-2.27%
1994	21.84%	19.57%	-2.27%	21.84%	-2.27%
1995	21.78%	21.78%	0.00%	21.78%	0.00%
1996	21.78%	21.78%	0.00%	23.05%	-1.27%
1997	26.58%	26.58%	0.00%	26.58%	0.00%
1998	26.58%	26.58%	0.00%	26.58%	0.00%
1999	23.41%	23.41%	0.00%	23.41%	0.00%
2000	23.41%	23.41%	0.00%	25.26%	-1.85%
2001	21.58%	21.58%	0.00%	21.58%	0.00%
2002	21.58%	21.58%	0.00%	21.58%	0.00%
2003	21.58%	17.37%	-4.21%	21.58%	-4.21%
2004	21.58%	21.58%	0.00%	21.58%	0.00%
2005	28.08%	21.58%	-6.50%	28.08%	-6.50%
2006	28.08%	21.58%	-6.50%	34.83%	-13.25%
2007	42.48%	25.50%	-16.98%	42.30%	-16.80%
2008	42.48%	28.00%	-14.48%	120.00%	-92.00%

Ky Supreme Court Decision

Jones vs. Board of Trustees of Ky Retirement Systems

- Board challenged the 1992-94 employer contribution rates within the budget enacted by the 1992 Regular Session of the General Assembly
- Ky Supreme Court ruled in favor of the actions taken in the budget
- The Retirement System Board made “...no showing that any benefit commitment made to KERS members was infringed, or threatened, the Board had no power to mandate rates of contribution and require their adoption.”

Financial Estimate of Not Providing the KERS Recommended Employer Contribution Rates

- The KERS staff has provided estimates of the impact on the pension and insurance funds of employer contribution rates less than recommended
- Total compounded value prior to July, 2006
Valuation = \$759 million (93% related to Non-hazardous)
- Total compounded value after the July, 2006
Valuation = \$1.305 billion (91% of the increase was related to insurance)

Kentucky Retirement Systems

Total Employer Contributions Explicitly in the Budget – Fiscal Year 2006-07

FY 2007 Estimated Costs

<u>Fund Source</u>	<u>Amount</u>	<u>%</u>
General	\$92,000,000	58%
Federal	\$14,300,000	9%
Road	\$24,300,000	15%
Restricted	\$27,800,000	18%
Tobacco	\$100,000	0%
TOTAL	\$158,500,000	100%

Kentucky Retirement Systems

Total Employer Contributions Explicitly in the Budget – Fiscal Year 2007-08

FY 2008 Estimated Costs

<u>Fund Source</u>	<u>Amount</u>	<u>%</u>
General	\$103,400,000	58%
Federal	\$16,100,000	9%
Road	\$27,300,000	15%
Restricted	\$31,200,000	18%
Tobacco	\$100,000	0%
TOTAL	\$178,100,000	100%

Kentucky Retirement Systems

Total Employer Contributions Explicitly in the Budget by Retirement Type – Fiscal Years 2001 – 2008

<u>Fiscal Year</u>	KERS	KERS	<u>State Police</u>	<u>Total</u>
	<u>Non-Hazardous</u> (millions of \$)	<u>Hazardous</u> (millions of \$)		
2001	\$90.4	\$23.9	\$9.6	\$123.9
2002	\$95.7	\$33.8	\$9.6	\$139.1
2003	\$72.9	\$23.2	\$7.6	\$103.7
2004	\$99.7	\$24.7	\$9.6	\$134.0
2005	\$100.2	\$24.2	\$9.5	\$133.9
2006	\$104.4	\$27.0	\$10.2	\$141.6
2007 Projected	\$151.1	\$33.0	\$13.0	\$197.0*
2008 Projected	\$156.5	\$36.4	\$14.5	\$207.4

*Includes an additional \$12 million allocated by the Governor from the FY 2006 General Fund Surplus.

Teachers' Retirement System Employer Contribution Rate

- The Teachers' Retirement System Employer Contribution Rate is 13.105% as set in state statute
- The enacted budgets have included the funding necessary to meet the statutory rate

Teachers' Retirement System Costs in the Budget

- 13.105% Employer contribution rate (9.105% - Retirement Fund, 0.75% - Medical Insurance Fund plus a 3.25% overmatch)

+

- Direct Appropriations to the Teachers' Retirement System Budget

Teachers' Retirement System Costs in the Budget – Fiscal Year 2006-07

- \$323 million from the 13.105% employer contribution rate for School Districts and Participating State Agencies
- \$157 million – direct Appropriations to the Teachers' Retirement System
- \$12 million – from the General Fund Surplus Expenditure Plan – July, 2006
- \$492 million Total

Teachers' Retirement System Costs in the Budget – Fiscal Year 2007-08

- \$352 million from the 13.105% employer contribution rate for School Districts and Participating State Agencies
- \$183 million – direct Appropriations to the Teachers' Retirement System
- \$535 million Total

Teachers' Retirement System Costs in the Budget – Direct Appropriations – FY 2006-07

- Amortized Cost of Cost-of-Living Increases above the 1.5% Statutory Increase - \$82 million
- Amortized Cost of Sick Leave Benefit - \$28 million
- Medical Insurance - \$32 million
- Other - \$15 million
- Total Direct Appropriations - \$157 million

Teachers' Retirement System Costs in the Budget – Direct Appropriations – FY 2007-08

- Amortized Cost of Cost-of-Living Increases above the 1.5% Statutory Increase - \$84 million
- Amortized Cost of Sick Leave Benefit - \$32 million
- Medical Insurance - \$37 million
- Other - \$30 million
- Total Direct Appropriations - \$183 million

Teachers' Retirement System Costs in the Budget – Medical Insurance

- Medical Insurance not Pre-funded; it is on a pay-as-you-go basis
- In the past two budgets the amount appropriated to cover the Medical Insurance cost was less than the pay-as-you-go amounts
- To cover those costs the Medical Insurance fund was authorized to “borrow” funds from the Pension fund – amortized over a 10 year period

Teachers' Retirement System Costs in the Budget – Medical Insurance

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Medical Insurance Fund Needed Beyond Resources Generated from the .75% Payroll Rate, Other income, and Direct Appropriations	\$29.2	\$62.3	\$97.0	\$127.4	
Amount Borrowed from Pension Fund (Amortized over 10 Years at 7.5%)	\$29.2	\$62.3	\$93.8*	\$127.4**	
Cost of "Loan" from the Pension Fund					
Loan for FY 2005		\$4.2	\$4.2	\$4.2	\$4.2
Loan for FY 2006			\$9.1	\$9.1	\$9.1
Loan for FY 2007				\$13.7	\$13.7
Loan for FY 2008					\$18.6
Total Cost of "Loan" from the Pension Fund		\$4.2	\$13.3	\$27.0	\$45.6

*The Governor allocated \$12 million from the FY 2006 General Fund Surplus which will reduce the actual amount borrowed.

**The General Assembly appropriated an additional \$20 million to be utilized at the Board's discretion.

Teachers' Retirement System Costs in the Budget – Amortizing Additional COLA

- The Additional Cost-of-Living Increases above the statutory 1.5% for each year is set in the budget bill
- The amount budgeted is based on a 20 year amortization of the additional cost
- The \$82 million included in the Fiscal Year 2006-07 budget is based on the 15 years from Fiscal Year 1992-93 to Fiscal Year 2006-07

Teachers' Retirement System Costs in the Budget – Amortizing Sick Leave Credit

- TRS members were provided the benefit of adding sick leave time to their service credit back in 1992
- The Budgeted Cost to the System of Sick Leave Credit is based on a 20 year amortization schedule
- The \$28 million included in the Fiscal Year 2006-07 budget is based on the 10 years from Fiscal Year 1997-98 to Fiscal Year 2006-07

Total Amount Explicitly Included in the 2006-08 State Budget

Ky Employees' Retirement Systems (Hazardous, Non-Hazardous, State Police)

- FY 2006-07 \$158 million
- FY 2007-08 \$178 million

Teachers' Retirement Systems

- FY 2006-07 \$492 million
- FY 2007-08 \$535 million

Combined

- **FY 2006-07 \$650 million**
- **FY 2007-08 \$713 million**